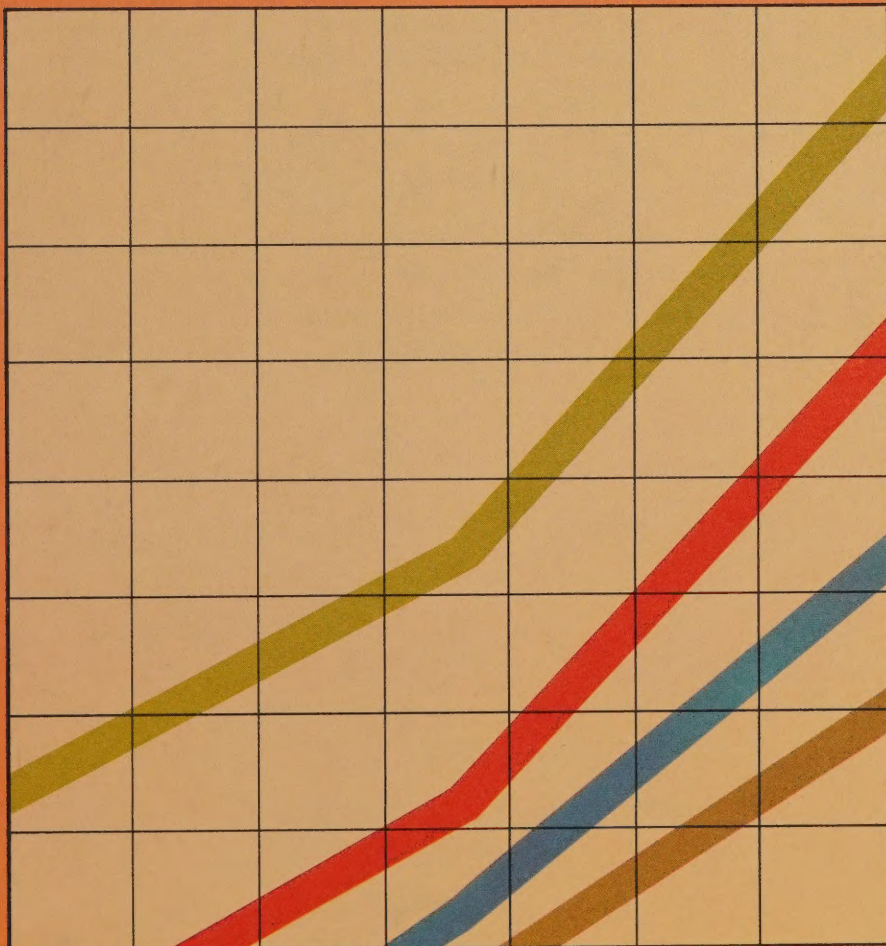





# Alberta Eastern Gas Limited

## Annual Report June 30, 1973





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# Alberta Eastern Gas Limited

515 Barron Building  
610 Eighth Avenue S.W.  
Calgary, Alberta T2P 1G5  
Telephone 261-7040

## LISTED

Toronto Stock Exchange  
Calgary Stock Exchange  
Montreal Stock Exchange

## DIRECTORS

W. J. Bushnell, Toronto, Ontario  
R. A. McCullough, Calgary, Alberta  
A. D. Rogan, Calgary, Alberta  
F. G. Vetsch, Calgary, Alberta  
John T. Wood, Calgary, Alberta

## OFFICERS

F. G. Vetsch, President and Chief Executive Officer  
R. A. McCullough, Vice-President and Treasurer  
A. D. Rogan, Vice-President Production  
W. G. Fyfe, Secretary

## TRANSFER AGENTS

Montreal Trust Company  
Toronto, Calgary  
Vancouver, Regina  
Winnipeg, Montreal

## AUDITORS

Riddell, Stead & Co.

## BANKERS

Canadian Imperial Bank of Commerce  
The Royal Bank of Canada

## HIGHLIGHTS

### PRODUCTION

	1973	1972	1971
GAS—Billions cubic feet . . . . .	10.98	5.939	2.817
Millions cubic feet per day	30.07	16.30	7.72
OIL—Barrels . . . . .	9,894	1,530	—
Barrels per day . . . . .	27.1	4.2	—

### ACREAGE (000 acres)

Gross . . . . .	1,084	885	652
Net . . . . .	519	477	414

### WELLS DRILLED (Cumulative)

Gross . . . . .	409	347	175
Net . . . . .	360	307	175

### FINANCIAL \$(000)

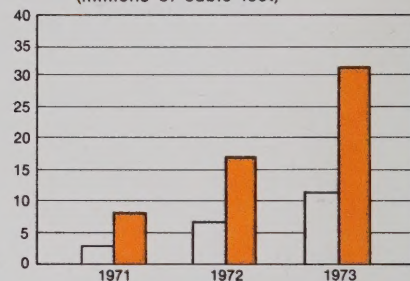
Sales (after royalty) . . . . .	1,819	859	345
Cash Flow . . . . .	1,247	263	10
Earnings before deferred income tax . . . . .	984	104	(45)
Earnings after deferred income tax . . . . .	665	62	(45)

### PER SHARE (Cents)

Cash Flow . . . . .	28	7	0
Net Earnings after deferred tax	15	2	(1)

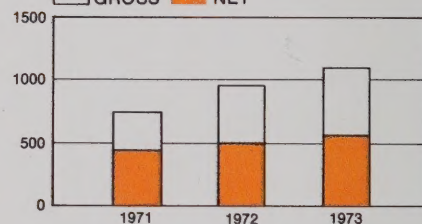
### GAS PRODUCTION

□ ANNUAL  
(billions of cubic feet)  
■ DAILY  
(millions of cubic feet)



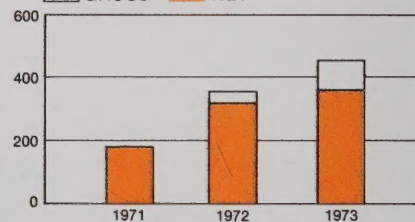
### ACREAGE (000)

□ GROSS ■ NET



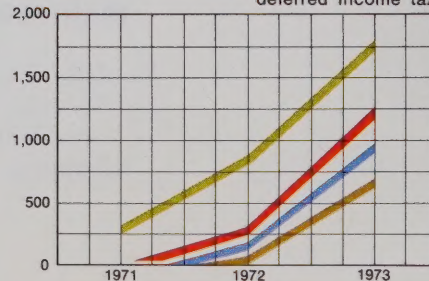
### WELLS

□ GROSS ■ NET



### SALES & EARNINGS \$(000)

■ Oil & Gas Sales (after royalty) ■ Earnings before income tax  
■ Cash Flow ■ Earnings after deferred income tax





## REPORT TO SHAREHOLDERS

The year ending June 30, 1973 was very good for Alberta Eastern. The comparative statistics for the years 1971, 1972 and 1973 presented in the highlights of this report demonstrate this. There are a number of factors which should contribute to continued growth in the future and these are explained in more detail below:

### FINANCIAL

Gas and oil sales revenue after royalty increased from \$859,000 in 1972 to \$1,819,000 in current fiscal year, an increase of 112 percent. Cash flow from operations increased from \$263,000 to \$1,247,000 or 375 percent.

Net earnings after provision for deferred income tax and before an extraordinary profit on the sale of Redcliff properties, increased from \$62,000 to \$665,000 or from 2¢ to 15¢ per share.

As a result of property sales and equity financing, working capital increased from a deficit of \$1,157,000 to a surplus of \$3,633,000.

### GAS CONTRACT NEGOTIATIONS

In early August, 1973, the Company and Trans-Canada Pipe Lines Limited completed renegotiation of gas contracts covering lands in southeastern Alberta. Under the new terms of these contracts, the price rises from 19.75 cents to 26 cents per Mcf on November 1, 1973 and escalates 1 cent per Mcf annually thereafter. In addition, Milk River zone gas will be subject to price redetermination on November 1, 1975 and every two years thereafter. Gas from other zones, the Medicine Hat, Second White Specks and others will be subject to redetermination on November 1, 1974 and each odd numbered year thereafter. These revisions will apply to about 97 percent of the Company's gas sales.

These new terms are of great importance in view of the shorter price redetermination periods and the Alberta Government's policy to price natural gas at its commodity value in relation to competitive fuels.

As a result of these contract renegotiations, the proposed Tilley area development loan of \$3,000,000 from another buyer, which was dependent upon Alberta Government approval of

certain provincial gas export permit revisions, has been cancelled by mutual agreement. Our Tilley area gas, which is on production, will be sold exclusively to Trans-Canada Pipe Lines Limited at the increased prices.

### PRODUCTION

The Company presently has about 60 shut-in gas wells with a deliverability in the order of 10 million cubic feet per day ready for connection and production. These wells will be added to the producing systems by November 1, 1973. In addition, development has been commenced in the Patricia Area and is expected to go on stream about January 1, 1974 at about 5 million cubic feet per day of which the Company's share is 62%. As a result of the connection of additional wells and the gas price change, it is expected that the Company's net cash flow for the next fiscal year will substantially exceed that of the year ended June 30, 1973.

Under the new terms of our gas contract with Trans-Canada Pipe Lines Limited, the Company plans extensive development in 1974 and 1975 of its present shallow gas holdings.

### SASKATCHEWAN PROPERTIES

During 1973 the Company and partners drilled 15 additional widely spaced wells on these properties to satisfy Saskatchewan Government work requirements and to further evaluate the property for potential development. In the course of this drilling, the Company and partners earned a further 13,900 acres of natural gas rights; bringing our net holdings to 198,000 acres in Saskatchewan. The results obtained from these new wells were very satisfactory. In our opinion, the majority of our Saskatchewan lands is economic to develop at current Alberta gas prices.

### GENERAL EXPLORATION

In the general foothills region of Alberta and British Columbia your Company now holds an interest in 433,000 gross acres, as shown on page 4. In this project, the program may be expanded to spend an estimated \$15,000,000 gross for lease rights acquisition and exploratory drilling costs, in which the Company earns



a 15 percent Working Interest by paying 7.5 percent of the program costs. Two deep wells, KM AEG Chiefco Brazeau 7-18-43-17-W5 and KM AEG Mast d-80-A are in progress, the former nearing total depth at present. The latter well gave multiple gas shows on drillstem test, which are being evaluated by completion of the well. Two additional wells are planned for the second quarter of the fiscal year, one of which will be located on lands in the Grizzly area.

The Company holds working interests of 100 percent in over 16,000 acres in the East Drumheller area and has a further 45,000 acres under option in which it can earn 50 percent working interest by performing certain drilling operations. Other acreage is available for further expansion of the play. All of these lands are shown on the general map of Alberta, N.E. British Columbia and Saskatchewan.

## RESERVES

The Company's latest outside engineering reserve report by James A. Lewis Engineering Co. Ltd., September 1, 1972, estimated Company reserves at 896 billion cubic feet of proven gas reserves and 897 billion cubic feet of probable reserves. Since that date, in the order of 40 successful extension or stepout wells have been drilled on our shallow gas lands, which results would have the effect of changing probable reserves to proven reserves and in some cases to place certain lands which had been given neither proven or probable reserves into the proven and probable category.

The Company has an interest in two oil wells which have been assigned reserves of 75,000 barrels by Company engineers.

## FOREIGN

The Company has taken a nominal 5 to 10 percent position in several consortia who are actively engaged in attempting to acquire exploration licences in various sedimentary basins outside of Canada. Our goal is to gain general exposure in new frontier areas through this approach.

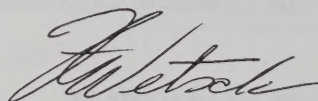
## GENERAL

The Directors are pleased to recognize the fine support given by the employees of Alberta Eastern Gas Limited over the past year. A management group, all with previously proven capabilities in the industry, has been recruited and will be expanded as the Company's activities grow.

As at August 10, 1973 the Company had 1,671 registered shareholders of which 1,626 were Canadian residents who held 4,662,782 common shares of the Company, representing about 96 percent of the stock outstanding.

We are looking forward to continuing progress in all areas in the future.

On behalf of the Board of Directors,



F. G. Vetsch,  
President and Chief Executive Officer

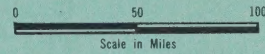
Calgary  
September 20, 1973



# ALBERTA EASTERN GAS LIMITED

## LEGEND

- Oil Fields
- Gas Fields
- Principal Gas Pipelines
- Company Interest Acreage



ALBERTA

SASK.

Ft. St. John

Dawson Creek

Peace River

NOSE CREEK AREA

GRIZZLY AREA  
(See detail map  
page 8.)

REDWATER

EDMONTON  
LEDUC

PEMBINA

BRAZEAU AREA

EAST  
DRUMHELLER AREA

CALGARY

QUIRK CREEK AREA

TURNER VALLEY  
HIGHWOOD AREA

Brooks

Alderson

Medicine Hat

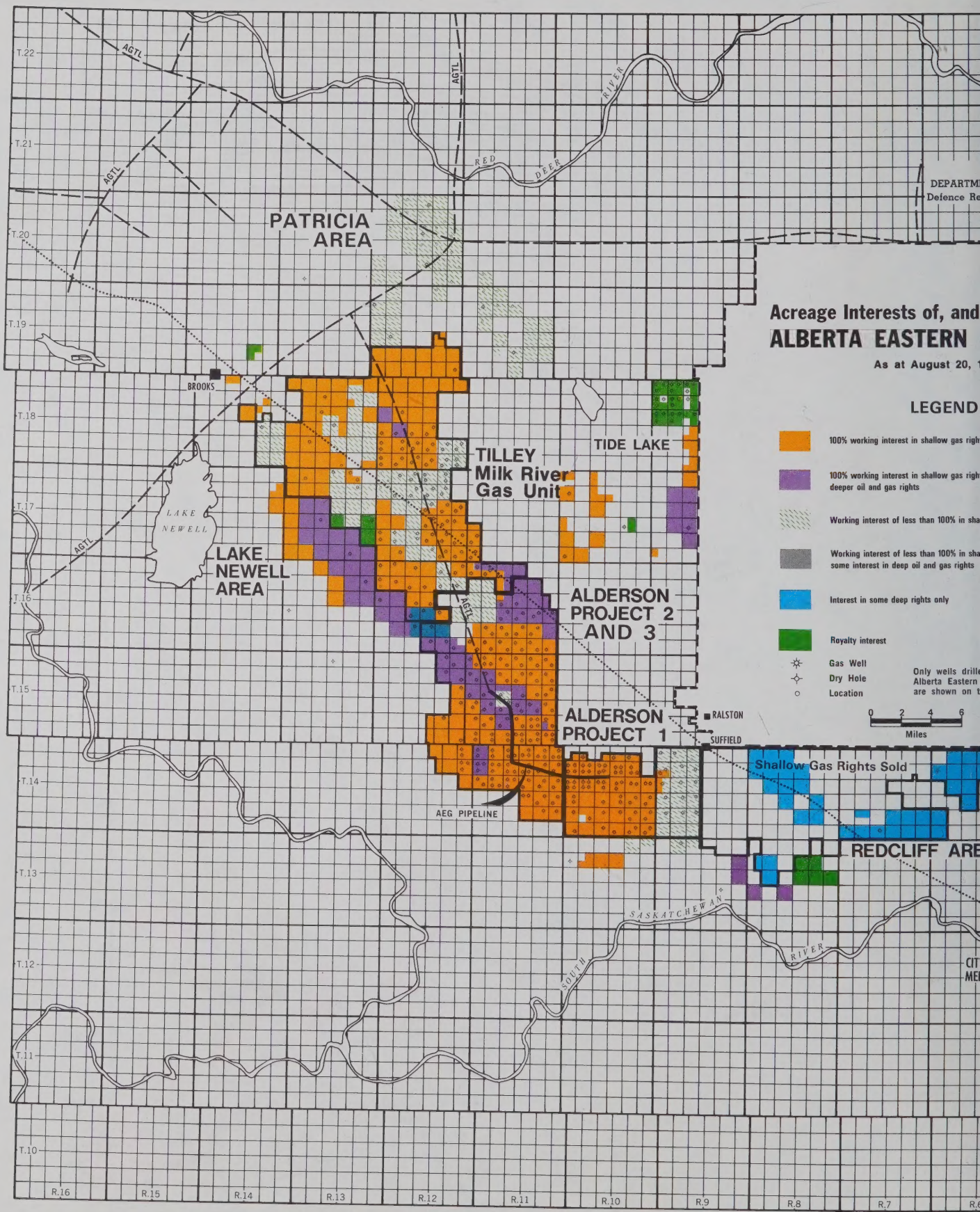
PINCHER CREEK

Swift Current

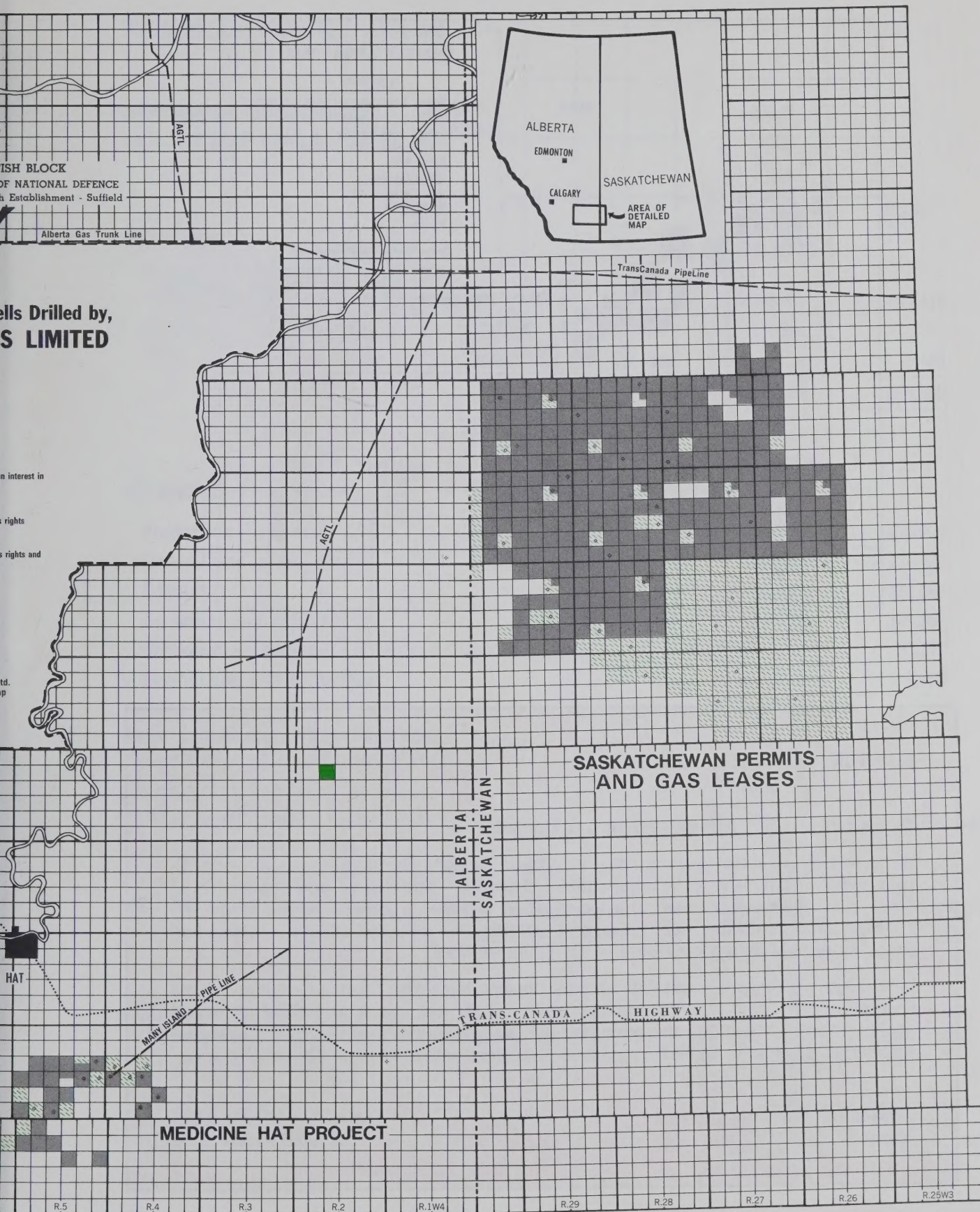
BRITISH COLUMBIA

(See detail map  
pages 6 & 7.)

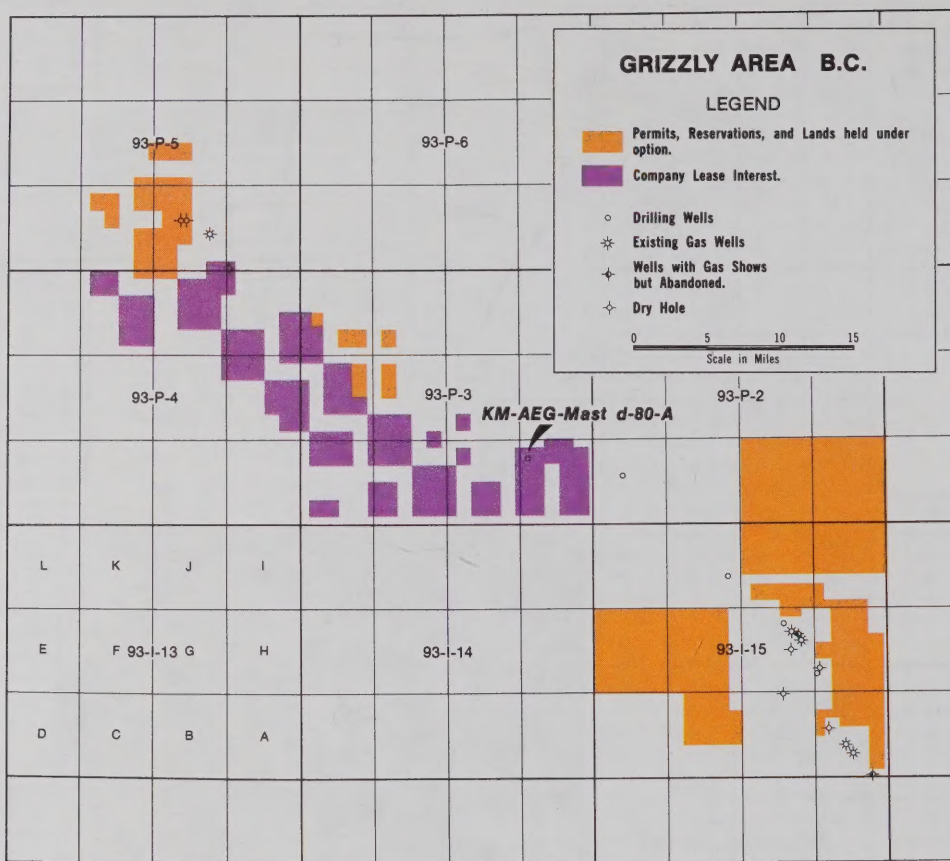












## AUDITORS' REPORT

### To the Shareholders Alberta Eastern Gas Limited

We have examined the balance sheet of Alberta Eastern Gas Limited as at June 30, 1973 and the statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at June 30, 1973 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta  
August 23, 1973.

RIDDELL, STEAD & CO.  
Chartered Accountants



# Alberta Eastern Gas Limited

## STATEMENT OF EARNINGS

FOR THE YEAR ENDED JUNE 30, 1973

	<u>1973</u>	<u>1972</u>
<b>REVENUE</b>		
Sale of gas and oil production, net of royalty \$294,967 (1972—\$119,740) . . . . .	\$ 1,818,863	\$ 859,415
Interest . . . . .	119,805	—
Other . . . . .	16,356	5,445
	<u>1,955,024</u>	<u>864,860</u>
<b>EXPENSES</b>		
Production . . . . .	399,482	236,323
General and administrative . . . . .	185,707	184,520
Interest . . . . .	103,833	137,567
Depletion and depreciation . . . . .	278,631	123,329
Unproductive development and exploration . . . . .	—	69,772
Engineering and consulting . . . . .	3,509	9,580
	<u>971,162</u>	<u>761,091</u>
<b>EARNINGS BEFORE PROVISION FOR INCOME TAXES AND EXTRAORDINARY ITEM . . . . .</b>	<b>983,862</b>	<b>103,769</b>
Deferred income taxes (Note 3) . . . . .	318,515	41,488
<b>EARNINGS BEFORE EXTRAORDINARY ITEM . . . . .</b>	<b>665,347</b>	<b>62,281</b> +
Gain on sale of properties net of applicable deferred taxes of \$1,703,045 . . . . .	1,920,455	—
<b>NET EARNINGS . . . . .</b>	<b>\$ 2,585,802</b>	<b>\$ 62,281</b> 0
<b>EARNINGS PER SHARE</b> (based on weighted average number of shares outstanding)		
Before extraordinary item . . . . .	15¢	2¢ +
Extraordinary item . . . . .	42¢	—
Net earnings . . . . .	<u>57¢</u>	<u>2¢</u> 0



# Alberta Eastern Gas Limited

## BALANCE SHEET AS AT JUNE 30, 1973

### ASSETS

#### CURRENT ASSETS

	<u>1973</u>	<u>1972</u>
Cash . . . . .	\$ 51,209	\$ 40,866
Short term bank deposit receipts . . . . .	4,275,000	—
Accounts receivable . . . . .	440,466	329,238
	<u>4,766,675</u>	<u>370,104</u>


#### PROPERTY, PLANT AND EQUIPMENT, at cost (Note 1)

Natural gas and petroleum leases, reservations and rights including development and equipment thereon . . . . .	11,797,775	7,812,565
Accumulated depletion and depreciation . . . . .	474,755	196,124
	<u>11,323,020</u>	<u>7,616,441</u>

<b>OTHER ASSETS, at cost</b> . . . . .	<u>56,797</u>	<u>81,784</u>
--	---------------	---------------

Signed on behalf of the Board:

 Director

 Director

<u>\$16,146,492</u>	<u>\$ 8,068,329</u>
---------------------	---------------------



**LIABILITIES**

	1973	1972
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities . . . . .	\$ 1,133,473	\$ 1,527,233
<b>BANK PRODUCTION LOAN</b> . . . . .	—	2,950,000
<b>DEFERRED INCOME TAXES</b> (Note 3) . . . . .	2,063,048	41,488

## SHAREHOLDERS' EQUITY

**CAPITAL STOCK** (Note 2)

Authorized		
7,500,000 common shares of no par value		
Issued		
4,964,000 (1972—4,000,000) shares . . . . .	10,608,200	3,730,000
<b>RETAINED EARNINGS (DEFICIT) . . . . .</b>	<b>2,341,771</b>	<b>(180,392)</b>
	<u>12,949,971</u>	<u>3,549,608</u>
	<u>\$16,146,492</u>	<u>\$ 8,068,329</u>



# Alberta Eastern Gas Limited

## STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED JUNE 30, 1973

	<u>1973</u>	<u>1972</u>
<b>DEFICIT AT BEGINNING OF YEAR . . . . .</b>	\$ (180,392)	\$ (242,673)
Net earnings . . . . .	2,585,802	62,281
Share issue expenses . . . . .	(63,639)	—
<b>RETAINED EARNINGS (DEFICIT) AT END OF YEAR . . . . .</b>	<u><u>\$ 2,341,771</u></u>	<u><u>\$ (180,392)</u></u>

## STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED JUNE 30, 1973

	<u>1973</u>	<u>1972</u>
<b>SOURCE OF FUNDS</b>		
Operations		
Earnings for the year before extraordinary item . . . . .	\$ 665,347	\$ 62,281
Add non-cash charges . . . . .	581,167	201,193
Cash flow from operations . . . . .	<u>1,246,514</u>	<u>263,474</u>
Disposal of properties . . . . .	4,039,000	210,657
Net proceeds on issue of shares (Note 2) . . . . .	6,814,561	—
Bank production loan . . . . .	—	2,294,164
Other . . . . .	24,987	(58,045)
	<u><u>12,125,062</u></u>	<u><u>2,710,250</u></u>
<b>APPLICATION OF FUNDS</b>		
Property, plant and equipment . . . . .	4,384,731	3,785,060
Bank production loan . . . . .	2,950,000	—
	<u>7,334,731</u>	<u>3,785,060</u>
<b>INCREASE (DECREASE) IN WORKING CAPITAL . . . . .</b>	4,790,331	(1,074,810)
Working capital deficiency at beginning of year . . . . .	(1,157,129)	(82,319)
<b>WORKING CAPITAL (DEFICIENCY) AT END OF YEAR . . . . .</b>	<u><u>\$ 3,633,202</u></u>	<u><u>\$ (1,157,129)</u></u>



# Alberta Eastern Gas Limited

## NOTES TO 1973 FINANCIAL STATEMENTS

### NOTE 1 ACCOUNTING POLICIES

The company follows the full cost method of accounting whereby all costs of exploration for and development of its gas and oil reserves are capitalized by project area. Costs associated with producing areas are amortized using the unit of production method based upon estimated recoverable reserves of gas and oil within each project area as determined by the company and its consulting engineers. If exploration activities within a project area prove unsuccessful, costs accumulated therein are written off to income.

### NOTE 2 CAPITAL STOCK

During the year, the company sold 940,000 common shares to the public for \$6,777,400 (before share issue expenses of \$63,639), and issued 24,000 common shares for \$100,800 on exercise of options.

At June 30, 1973, 36,000 common shares were reserved under stock options granted to employees. The options are exercisable in varying amounts at \$4.20 to \$4.50 per share until 1976.

### NOTE 3 INCOME TAXES

The company provides for deferred income taxes to the extent that current income taxes are reduced or eliminated by claiming capital cost allowances and exploration and development costs in excess of the amounts provided for depreciation and depletion in the financial statements.

### NOTE 4 REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration paid during the year to directors and senior officers totalled \$118,320. No directors' fees were paid.





ad copy

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

For the Six Months Ended December 31, 1972  
(With Comparative Figures for 1971)  
(UNAUDITED)

Source of Funds

Operations

Earnings (Loss) for the period before extraordinary item .....  
Add non-cash charges .....  
Cash flow from operations .....  
Bank production loan .....  
Disposal of fixed assets .....  
Issue of capital stock .....

	<u>1972</u>	<u>1971</u>
	\$ 225,165	\$ (21,573)
	<u>180,951</u>	<u>40,857</u>
	406,116	19,284
	—	1,544,163
	4,000,000	187,412
	<u>6,794,200</u>	<u>—</u>
	11,200,316	1,750,859

Application of Funds

Property, plant and equipment .....  
Deposits .....  
Bank production loan .....  
Share issue expense .....

	3,084,463	1,795,031
	42,260	84,200
	2,950,000	—
	<u>62,075</u>	<u>—</u>
	6,138,798	1,879,231
	5,061,518	(128,372)
	<u>(1,157,129)</u>	<u>(82,319)</u>
	\$3,904,389	\$ (210,691)

Increase (Decrease) in working capital for the period .....  
Working capital (Deficiency) at beginning of period .....  
Working capital (Deficiency) at end of period .....

Alberta Eastern Gas Limited

515 Barron Building  
610 Eighth Avenue S.W.  
Calgary, Alberta T2P 1G5  
Telephone 261-7040



LISTED

Toronto Stock Exchange  
Calgary Stock Exchange

DIRECTORS

W. J. Bushnell, Toronto, Ontario  
R. A. McCullough, Calgary, Alberta,  
Vice-President  
A. D. Rogan, Calgary, Alberta, Vice-President  
F. G. Vetsch, Calgary, Alberta, President  
John T. Wood, Calgary, Alberta

OFFICERS

F. G. Vetsch, President and  
Chief Executive Officer  
R. A. McCullough, Vice-President  
and Treasurer  
A. D. Rogan, Vice-President Production  
W. G. Fyfe, Secretary

ALBERTA EASTERN GAS  
LIMITED

Progress Report  
February 27, 1973



REPORT TO SHAREHOLDERS:

I am pleased to report to shareholders on the progress of the Company during the six month period July 1 to December 31, 1972. An unaudited Statement of Earnings and Retained Earnings and a Statement of Source and Application of Funds are included as part of this report. Cash flow from operations for the six month period reached \$406,116 or 10c per share, on the basis of the weighted average number of shares outstanding. Net earnings, after provision for deferred income tax but before extraordinary item, were \$225,165 or 5.5c per share. Sale of production after royalty was approximately 2½ times that for the same period in 1971. These results were achieved with only two months of operations of two new producing projects.

In the past six months the Company's financial condition has been materially improved. In late September the Company sold 56,000 net acres of shallow gas rights in the general Redcliff area for a net \$4,000,000. This transaction appears in the attached statement as an extraordinary item, netting \$1,921,250 after provision for deferred tax of \$1,703,750. In mid-December, 1972, the sale of 940,000 shares of common stock from treasury was successfully completed netting the Company over \$6,700,000 after all costs. Consequently, your Company is in an excellent position to pursue development of its shallow gas lands and exploration. The scheduling of shallow gas development, however, will be determined after the field gas pricing situation is clarified. Exploratory exposure is being expanded both in our traditional areas of activity and else-

where, with particular emphasis on gas exploration.

Further to information given in the 1972 annual report, your Company has entered a deep exploratory program in which over 400,000 gross acres of land have been acquired to date. Over half of these land acquisitions are located in the highly prospective Chinook-Grizzly gas area, where indicated major gas discoveries have been made by others.

This program involves two partners, one a producer and the other a gas transmission company. The entire program calls for the expenditure of \$10,000,000 in land acquisition and drilling, in which Alberta Eastern will earn 15% of the group's interests by contributing 7.5% of the cost. The agreement provides for a commitment of any gas discovered to the transmission company at very attractive prices and interest-free development drilling advances to the Owners to a limit of \$35,000,000. Two wells in this program are scheduled to commence within a few weeks.

We are looking forward to a very active and successful year in 1973.

On Behalf of the Board of Directors,

F. G. Vetsch  
President and Chief Executive Officer.

February 22, 1973.

STATEMENT OF EARNINGS AND RETAINED EARNINGS

For the Six Months Ended December 31, 1972

(With Comparative Figures for 1971)  
(UNAUDITED)

	1972	1971
<b>Revenue</b>		
Sale of gas production—net of royalty	\$ 740,196	\$ 293,327
Interest	11,071	1,219
Other income	870	6,006
	<u>752,137</u>	<u>300,552</u>
<b>Expenses</b>		
Production	158,085	108,311
General and administrative	81,610	110,090
Unproductive development and exploration	—	12,446
Engineering and consulting	2,371	2,032
Interest	103,955	48,389
Depletion and depreciation	94,651	40,857
	<u>440,672</u>	<u>322,125</u>
<b>Earnings (Loss) before income taxes and extraordinary item</b>	311,465	(21,573)
Deferred income taxes	86,300	—
	<u>225,165</u>	<u>(21,573)</u>
<b>Earnings (Loss) before extraordinary item</b>		
<b>Extraordinary item</b>		
Gain on sale of properties, net of applicable deferred taxes of \$1,703,750	1,921,250	—
	<u>2,146,415</u>	<u>(21,573)</u>
<b>Net earnings (Loss) for the period</b>	(180,392)	(242,673)
Deficit at beginning of period	(62,075)	—
Share issue expense		
<b>Retained Earnings (Deficit) at end of period</b>	<u>\$1,903,948</u>	<u>\$ (264,246)</u>
<b>Earnings (Loss) per share</b> (based on weighted average number of shares outstanding)		
Earnings (Loss) before extraordinary item	5.5c	(.5)c
Earnings (Loss) for the period	<u>52.5c</u>	<u>(.5)c</u>